Republic of Namibia

"Maintain Financial Stability"

FISCAL STRATEGY
FOR FINANCIAL YEAR 2020/21 BUDGET

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MAY 2020

Foreword

The Fiscal Strategy provides the macroeconomic and fiscal framework for the budget and the Medium-Term Expenditure Framework. Indeed, the macro-fiscal framework does not only set out the economic context, but also the aggregate resource envelope, the policy stance and policy priorities for the budget and MTEF consistent with the fiscal sustainability parametres.

In regard to the FY2020/21 Budget, the policy priority is to strike a balance between growth and risks from the domestic and global economic slowdown, which have been amplified by the outbreak of COVID-19. The budget further serves as an instrument whereby the most urgent priorities and essential services are identified for better expenditure targeting in an environment of declining revenue. Notably, economic activity in the global and regional context is marked down significantly, following the outbreak of COVID-19 and consequent health containment and suppression measures. This translates into supply side disruptions and depressed demand for commodities, goods and services with negative effects on Namibia as a small, open economy. In fact, no single economy is spared from the negative effects of COVID_19.

Growth for the Sub-Saharan African region is projected to plummet in 2020 and will only rebound moderately in 2021. This reflects downward revisions especially for oil producers due to the oil price fall as well as the generalized impact of COVID_19 across the region.

In the domestic economy, activities are projected to slowdown, resulting into downward revision on GDP and revenue, both in nominal and real terms. However, spending needs remain rigid. These are exacerbated by COVID-19 related spending, translating into high deficit, elevated financing requirements and debt rise.

The fiscal policy objective for the next three years will therefore focus on combating the legacy effects of COVID-19 pandemic and support the economy to readjust to post-pandemic new normal and to restore sustainable trajectories for the fiscal targets. In this regard, the Government will endeavour to implement measures for structural economic reforms, strengthen partnership with private sector and other stakeholders to optimise domestic productive and industrial capacity.

Iipumbu Shiimi, MP

MINISTER

REPUBLIC OF NAMIBIA
Ministry of Finance
OFFICE OF THE MINISTER

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1. OVERVIEW OF GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS AND OUTLOOK

1.1 GLOBAL AND REGIONAL ECONOMIES

The emergence of the COVID-19 has changed the world economic landscape dramatically in a span of three months with a threat of another great recession. The IMF has since adjusted its growth projections for World output in 2020 and 2021 from 3.3 percent and 3.4 percent in January 2020 to -3.0 percent and 5.8 percent respectively in April 2020.

The change in forecasts was due to the impact of COVID-19 on global output. With human capital at risk, -economic activity globally has gone on lockdown to try and contain the spread of the virus and this had an unprecedented impact on the global economy as policy uncertainty elevated.

Table 1: Overview of IMF World Economic Outlook Real GDP Projections - annual % changes

		April WEO 2020			**Difference from Jan 2020 projections**	
	2018a	**2019e**	**2020e**	**2021p**	**2020e**	**2021p**
World Output[1]	3.6	2.9	-3.0	5.8	-6.3	2.4
Advanced Economies	2.2	1.7	-6.1	4.5	-7.7	2.9
US	2.9	2.3	-5.9	4.7	-7.9	3.0
Euro area	1.9	1.2	-7.5	4.7	-8.8	3.3
Japan	0.3	0.7	-5.2	3.5	-5.9	2.5
UK	1.3	1.4	-6.5	4.0	-7.9	2.5
EMDE	4.5	3.7	-1.0	6.6	-5.4	2.0
China	6.6	6.1	1.2	9.2	-4.8	2.6
India	6.8	4.8	1.9	7.4	-3.9	0.9
Sub-Saharan Africa	3.2	3.3	-1.6	4.1	-5.1	0.6
Nigeria	1.9	2.2	-3.4	2.4	-5.9	-0.1
South Africa	0.8	0.2	-5.8	4.0	-6.6	3.0
Angola	-1.2	-1.5	-1.4	2.6	-2.9	0.2

Source: WEO April 2020 *a=actuals, e=estimates, p=projections*

[1] *Other projections -* ***OECD*** *(March 2020): 2.4 percent, 3.3 percent and 3.0 percent for 2019, 2020 and 2021, respectively.* ***World Bank*** *(Jan 2020): 2.4 percent, 2.5 percent and 2.6 percent for 2019, 2020 and 2021, respectively.* ***UN*** *(Jan 2020): 2.3 percent, 2.5 percent and 2.7 percent for 2019, 2020 and 2021, respectively.*

1.2 RISKS TO THE GLOBAL ECONOMIC OUTLOOK

The **COVID- 19 outbreak** with its lingering impact on economic activities for the remainder of the year is expected to bring about a global economic crisis, with far more severe consequences compared to the 2008/09 financial crisis.

Widespread **loose financial** conditions would expose the financial vulnerabilities that have built up over the years of low interest rates and with indebtedness already high, the shocks to confidence and income could further curtail spending on machinery, equipment, and household consumables.

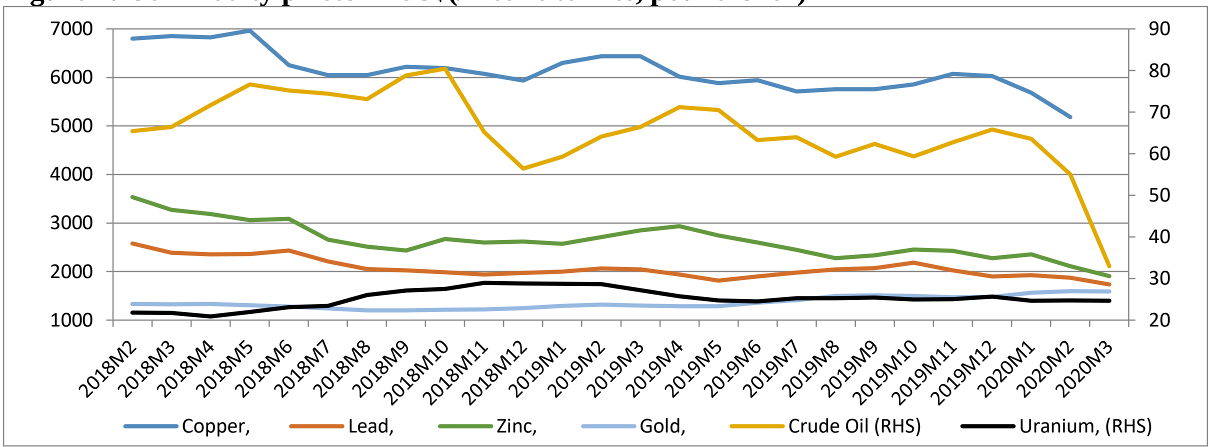
Climate change, the driver of increased frequency and intensity of weather-related disasters, already endangers health and economic outcomes, and not only in the directly affected regions but globally.

Weaker than expected global recovery is an eminent risk that would affect the performance and pace of recovery of the Namibian economy due to the interrelated and interlinked economies.

1.3 COMMODITY PRICES

The **IMF all commodity price index**[2] recorded a decline of about 21.7 percent year-on-year and a 15.5 percent month-on-month, respectively, during March 2020. The decline was attributed mainly to the plummeting in the oil price index which dropped by 39.8 percent and 48.8 percent, on a monthly and annual basis, respectively. However, the **all-metal price index** increased by 2.8 percent annually but declined by 3.8 percent monthly, with the annual increase premised on the gold price that benefitted from the greater uncertainty and ultra-low interest rates.

Figure 1: Commodity prices in US$(/metric tonnes, pound & oz)



IMF primary commodity prices: April 2020

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[2] IMF commodity prices: https://www.imf.org/en/Research/commodity-prices

Generally, all **commodity prices** recorded a decline with the exception of the gold price. **Uranium spot prices** declined by 0.1 percent on a monthly basis and recorded an annual decline of close to 9.3 percent in March 2020, although it surged in April as production was cut. The **gold** price increased significantly by 22.4 percent annually but recorded a decline of 0.3 percent monthly in March.

On the other hand, **copper prices** declined by 19.5 percent y-o-y and 8.9 percent m-o-m, exacerbated by the lockdown in China. **Zinc prices** also recorded a decline of close to 33.2 percent y-o-y and 9.9percent m-o-m for March 2020. The **IDEX**[3] fell by 4.7 percent on an annual basis and by 1.3 percent on a monthly basis; the decline is in line with lower **diamond prices** as demand for luxury goods is on the decline globally.

Commodity markets are expected to remain volatile with prices generally low during the year due to a combination of factors such as geopolitical tensions, oil market fall-out, increased supply, the impact of COVID-19, trade tensions and generally low external demand for commodities with an ounce of positivity in uranium prices.

2. DEVELOPMENTS IN THE DOMESTIC ECONOMY

2.1 Developments in the real sector

According to the Preliminary National Accounts 2019, real GDP contracted by 1.1 percent in 2019 following a moderate positive growth rate of 0.7 percent in 2018. Investment declined in 2019, although both public and private consumption posted positive growth.

The weak economic performance in 2019 was registered as Namibia was in the grip of a countrywide drought. Overall, economic activity is estimated to have declined by 1.1 percent in 2019. The **primary industries** is estimated to have contracted by 7.8 percent, down from a growth of 8.5 percent in the previous year, while the **secondary industries** maintained a growth of 0.9 percent, unchanged from that of 2018. The **tertiary industries** improved to positive growth of 0.6 percent from a contraction of 1.4 percent in 2018 (Table 2).

Table 2: GDP by activity constant 2015 prices – annual % changes (2016-2018 actuals)[4]

	2016	2017a	2018a	2019pl
Primary industries	-6.0	11.0	8.5	-7.8
Secondary industries	-4.0	-6.9	0.9	0.9
Tertiary industries	1.9	-0.5	-1.4	0.6
GDP at market prices	**-0.3**	**-0.3**	**0.7**	**-1.1**

Source: NSA, January 2020 (a=actual, pl= preliminary)

[3] The International Diamond price Index (IDEX) from idexonline.com/diamond_prices_index

[4] *Disaggregated table is attached as an annexure*

The mining production is estimated to have declined by about 11.1 percent in 2019, attributed mainly to *diamond mining*, *which contracted by 17. 7 percent*, *while the uranium* and *metal ores* sub-sectors recorded declines of 4.4 percent and 0.1 percent, respectively.

The decline in the *diamond* sub-sector was due to a lower volume of diamonds produced during the period under review, resulting from vessel maintenance and almost depleted onshore resources.

The contraction in uranium production was attributed to low demand, reduced output (as one of the mines was placed under care and maintenance) and operational challenges experienced by the sector.

C*onstruction* activity has continued to decline since 2016 following the completion of major construction projects by both the private and public sectors. The subsector recorded a contraction of 8.7 percent in 2018 and it is estimated to have declined by a further 7.9 percent in 2019.

2.2 Current and Capital Accounts

The current account deficit is estimated to have narrowed by about 18.2 percent to N$4.1 billion in 2019, attributed mainly to an improvement in the merchandise trade deficit, reflecting a moderation in the import bill[5]. The lower net outflows on the primary income account, coupled with increased inflows of secondary income as a result of SACU receipts also contributed to these developments. As a proportion of GDP, the current account deficit stood at 2.3 percent in 2019, compared to a deficit of 2.8 percent of GDP in the previous year. The capital account balance decreased by 4.8 percent to N$ 1.6 billion, mainly due to a notable decline in capital transfers received from the rest of the world during 2019. Namibia's net borrowing from the rest of the world declined by 23.5 percent to N$2.5 billion in 2019, supported by the improvement in the current account balance.

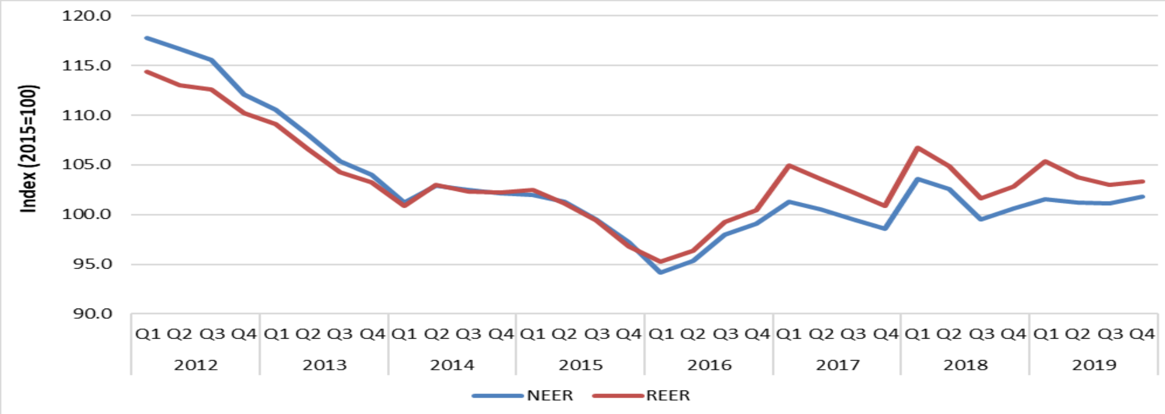
2.3 Exchange Rates and Competitiveness

The Nominal Effective Exchange Rate (NEER) appreciated by a moderate 2.5 percent over the year to December 2019 (Figure 2). The appreciation of the NEER was due to the strengthening of the Rand/NAD against the Angolan Kwanza and Zambian Kwacha. Amongst the trading currencies, the Angola Kwanza weakened significantly against the South African Rand/NAD as a result of pressure on Angola's foreign reserves as well as subdued oil prices. The Real Effective Exchange Rate (REER) stood at 103.9 index points during the fourth quarter of 2019, which is 0.9 percent stronger than the previous quarter and 1.1 percent stronger than the corresponding quarter of the preceding year. This stronger REER implies that Namibia external competitiveness weakened somewhat during the review period. However, in early 2020 both the NEER and REER depreciated considerably, in line with global investor sentiment that

[5] Due to weak demand for goods and services as mirrored in depressed wholesale and retail activity, weak construction activity and a contraction in instalment credit extended to the domestic private sector.

switched in favour of advanced economy currencies as the COVID-19 pandemic took hold. This improved Namibia's external competitiveness, although probably at the cost of higher future price inflation for non-fuel imports.

Figure 2: Effective Exchange rates 2012 to 2019:



Source: Bank of Namibia, February 2020

2.4 Interest rate Developments

During 2019 the repo rate was reduced once by 25 basis points from 6.75 percent to 6.50 percent, in line with changes in the monetary policy in South Africa. Since the beginning of 2020, the repo rate has been reduced three times, namely in February 2020 (25 basis points), March 2020 (100 basis points), and April 2020 (100 basis points). Together this represents a 2.25 percentage points decline in the repo rate for 2020 to the current rate of 4.25 percent. The MPC has taken the last two decisions involving exceptionally large reductions order to continue supporting domestic economic activity in response to the COVID-19 outbreak, while at the same time maintaining the one-to-one link between the Namibia Dollar and the South African Rand.

2.5 International Reserves

The stock of foreign reserves declined by 6.7 percent y-o-y to reach N$28.9 billion at the end of 2019 from a higher reserve position of N$31.0 billion at the end of 2018. The reduction in foreign reserves was primarily driven by higher government foreign payments during 2019 coupled with net outflows of rand via commercial banks mainly due to imports payments (on behalf of their clients). The import cover was estimated at 4.1 months during 2019, which was slightly lower than the 4.5 months recorded in 2018. At the end of March 2020, the reserves increased to N$33.0 billion or 5.3 months of imports.

3. OUTLOOK FOR THE DOMESTIC ECONOMY

3.1 Economic Impact of COVID-19

The world, including Namibia is faced with the worst virus pandemic since 1918. The COVID-19 pandemic has resulted in multiple deaths at unprecedented rates in many parts of the world, an upsurge in spending on medical supplies and equipment for medical professionals, and a halt in activities as people are confined in their homes, unable to fully contribute to the economy and productive activities. Meanwhile, those in the production of essential goods and services such as food, medicine, and public utilities are working, exposed to the risk of contracting the virus, to support the effort and ensure that people are cared for during the lockdown period.

The Government of the Republic of Namibia took measures to curb the spread of the virus, save people's lives and ensure that the supplies of essential goods are maintained. As much as the measures taken are necessary to safeguard people's lives, they are severely curtailing economic activity. However, uncertainty still exists on the extent and magnitude of the impact of COVID-19 on the economy as this would depend on the duration of the pandemic and the period that the measures taken are kept in force, especially when they are at full lockdown level. Furthermore, the success and the pace of the economic recovery after the lifting of measures will depend crucially on policies taken during the crisis.

Economic transmission channels

Economic shocks arising from COVID-19 and the health measures to contain the spread of the virus have contagion effects through multiple external and domestic channels. The immediate effect is through:-

Supply side shocks: This comes about as global and regional supply chains for production inputs are disrupted. This has the effect of reducing production lines across a broad range of goods and services as imports and exports plummet. Social distancing, travel bans, quarantines, and lockdowns significantly reduce the supply of labour as many of workers are unable to work from home. Travel bans and lockdowns lead to closures of industries directly affected with some such firms expected to lay-off workers and file for bankruptcy.

Demand side shocks: Consumer demand dips as households increase precautionary savings due to uncertainty. Demand disruptions also arise from social distancing and lockdowns. Reduced income from lockdowns for businesses and employees as well as consequent lay-offs all operate to reduce consumption demand. External demand shocks have an impact on the price and quantity of exports. For Namibia, this is especially negatively impacting on mineral commodity output and exports, which account for over 53 percent of Namibian exports.

Investment and capital markets shocks: The outbreak of the COVID-19 has led to uncertainties around the world, with business and capital market confidence suffering from temporary but large shocks. Investment flows are at a standstill, equity markets have fallen sharply while net capital outflow from Emerging Markets and Developing Economies have been witnessed.

Apart from measures with direct impact on the government budget, other measures such as ***staying at home and maintaining social distancing*** are key components of collective protection domestically and globally. These measures also imposed even larger economic costs through lower output, lower tax revenues, and therefore the need to protect the most-affected people and firms.

The COVID-19 outbreak and its financial and economic consequences will cause a major increase in fiscal deficits and public debt ratios, therefore necessitating the need to revise previous projections. As output drops, revenue is also expected to fall, even to a larger extent than economic activity. The Fiscal Strategy provides an assessment of the impact of COVID-19 on both economic activities and government finances, presented in three scenarios for 6 months, 12 months, and 18 months period impacts.

3.2 Economic growth projections

Three scenarios of economic growth were developed in order to reflect the different likely outcomes depending on the intensity of the impact of COVID-19 and the expected duration of the impact on economic growth amidst other challenges globally and domestically. Table (3) below reflects the three scenarios with the 12 months impact of COVID-19 used as the ***central policy scenario***.

Table 3: GDP growth Scenario based on the duration of the impact of COVID -19[6]

	2018a	**2019pl**	**2020e**	**2021p**	**2022p**	**2023p**
3-6m	0.7	-1.1	-4.6	-0.8	2.4	2.1
12m	0.7	-1.1	**-6.6**	**-1,1**	**3,6**	2.2
18m	0.7	-1.1	-9.8	-1.5	2.7	2.3

Source: MEWG, March 2020 (a=actuals e=estimates pl= preliminary p=projections)

The **6 months impact scenario** is the optimistic scenario and considers the direct impact of COVID-19 to last for 6 months of 2020. This scenario is based on the assumption that after 6 months, the direct impact of the outbreak will subside and businesses will start operating with the adjustment of post outbreak. It is also assumed that output from mining will decline but partially due to the lockdown and the water constraints including winding up mining activities for 3 major mines across different minerals in Namibia. The tourism (hospitality), transport, and logistics are highly affected by the travel bans while the rest of the economy is affected by the secondary impact (lockdown, loss of revenue and supply constraints).

[6] *The disaggregate table of growth rates is contained annexure table*

The **12 months impact scenario** considers the direct impact of COVID-19 outbreaks to last at least for 12 months (1 year), which means it falls into the first quarter of **2021** and is currently the **central policy scenario**. This scenario is based on the assumption that after 12 months the direct impact of the outbreak will subside and businesses will start operating with the adjustment of post outbreak but also takes the **Economic Stimulus package** into account. Due to the longer duration of the outbreak, it is assumed that the lockdown will have caused tourism (hospitality) sector to have crushed and subsequently the sectors that follow in line with tourism (arts, entertainment, adventure travel, etc.). Transport and logistics sectors are expected to fall drastically, while the financial sector is expected to be highly affected by the poor performance in the above stated sectors. The prolonged lockdown is expected to negatively affect the mining sector (if not given authority to continue operations as essential service due to high cost intensiveness).

The **18 months impact scenario, which is the worst case scenario,** considers the direct impact of COVID -19 outbreaks to last at least for 18 months, which means it would fall into the third quarter of **2021**. This scenario is based on the assumption that after 18 months the direct impact of the outbreak will subside and businesses will start operating with the adjustment of post outbreak. Generally this is the worst case scenario where it is expected that growth in both **2020** and **2021** will be severely affected to the extent of a contraction for both years as all sectors are expected to contract with a few exceptions (agriculture, health, & ICT).

3.3 BASELINE GROWTH SCENARIO FOR THE DOMESTIC ECONOMY

According to the recently released Preliminary National Accounts 2019, the domestic economy is estimated to have contracted by 1.1 percent in **2019,** compared to a marginal growth of 0.7 percent attained in 2018). The contraction in 2019 is attributed to the deep contraction in the primary industries (7.8 percent) despite negligible growth rates in the secondary (0.9 percent) and tertiary industries (0.6 percent). Amidst the COVID-19 outbreak and subsequent lockdown of some countries and travel ban across the globe, GDP outlook has been revised down from growth of 1.0 percent to a contraction of 6.6 percent for **2020** and is projected to record a recovery at an average rate of 1.0 percent over the medium term period.

Table 4: Supply-side GDP growth projections - annual % changes

			March 2020 Update			Fiscal Strategy 2019/20		
	2018a	2019pl	2020e	2021p	2022p	2020e	2021p	2022p
Primary Industries	6.9	-5.5	-12.1	-1.9	7.6	1.2	2.8	1.8
Secondary Industries	-0.3	1.1	-2.6	-1.9	2.7	0.0	-0.2	1.1
Tertiary Industries	-1.4	0.6	-5.7	-1.4	2.7	0.9	0.9	1.6
GDP at market prices	**0.7**	**-1.1**	**-6.6**	**-1,1**	**3,6**	0.8	1.1	1.5

Source: MEWG, March 2020 (a=actuals e=estimates pl= preliminary p=projections)

Table 4, depicts the changes in projections and seeks to show how the impact of COVID-19 has changed the assumptions in projecting growth for the medium term. It was previously expected that 2020 would be the year of recovery for the economy but that has now been shifted to 2022. For 2020 - output growth has been revised downwards by 7.4 percentage points mainly driven by contractions in primary and tertiary sector. While the downward revision for 2021 is by 2.2 percentage points and upward revision for 2022 by 2.1 percentage points.

4. FISCAL POLICY REVIEW

4.1 Global Fiscal developments and outlooks

Developments in the global fiscal fronts continued to deteriorate, with weakening fiscal balances and increases in public debt in most of the countries, driven by slowdown in global economic performance as results of down-side risks and prolonged recovery in commodity prices as well as emergence of the COVID-19 pandemic.

In this regards government has to respond swiftly, concerted, and Commensurate with the severity of the health crisis, with fiscal tools taking a prime role. The first priority should be saving lives, and requires fully accommodating spending on testing and treatment, which calls for global coordination

World Economic Outlook (April, 2020) has identified the following downside risks to fiscal outlook: (1) a more severe economic fallout from widespread infections and repeated outbreaks; (2) large swings in commodity prices; (3) prolonged stress in global financial markets; (4) renewed social unrest; and (5) extreme weather events.

Fiscal stimulus and public sector support is therefore required to manage fiscal risk and help the economy to recuperate. As a results fiscal indices are expected to deteriorate in all countries that will present vulnerabilities. Countries will therefore need to reprioritize expenditure toward the health sector and safeguard key public services (transport, energy, and communications) and social protection.

4.2 Domestic Fiscal Policy Developments and outlook

The domestic fiscal aggregate indicators have weakened owing to the recessionary pressure on the economy over the past 4 years. However, government has been steadfast in upholding its stance on a balanced and pro-growth fiscal consolidation to rein in expenditure growth and slowdown growth of the debt stock. As a result, expenditure has smoothed out and government debt was slowly stabilising. However, with major revisions to GDP in December 2019, fiscal indices fell back and led to the targeted ratios being missed.

The fiscal deficit slowed down from a record high of 6.7 percent of GDP in 2016/17 down to 5.2 percent in 2017/18 and was estimated to reach 2.6 percent by the end of the current MTEF period. Total Expenditure moderated from 36.9 percent of GDP to a projected 32.5 percent by the end of the MTEF period. However the emergence of COVID-19 pandemic has added pressure to already fragile economy, with the domestic economy already on a declining trend since 2016.

4.2.1 Revenue Outturn

Total revenue for 2018/19 is recorded at N$55.9 billion, which represents a decrease of 4.4 percent in relation to N$58.7 billion in FY2017/18. The decrease reflected shortfalls in various tax categories such as 2.4 percent decline in income tax on individuals, 0.5 percent in VAT decreases, 11.3 percent in SACU receipts and 6.8 percent decline in the company tax, relative to 2017/2018.

Total revenue estimates for FY2019/20 increased slightly, recorded at N$58.6 billion, about 4.8 percent above N$55.9 billion in the 2018/19 financial year. This is due to better collection on income tax on individual, but tax collection will likely remain flat as subdued economic activities that characterize the economy persist.

Table 5: Trend of fiscal aggregates FY 2016/17 to FY2018/19 and revised estimates for FY2019/20

ITEM	2016-17	2017-18	2018-19	2019-20	2019-20
	Actual	*Actual*	*Actual*	*Mid-Year*	*REV-Estimates*
GDP	**160,028**	**171,660**	**178,208**	**197,901**	**176,426**
Revenue	**50,865**	**58,659**	**55,882**	**58,406**	**58,596**
% of GDP	**31.8%**	**29.6%**	**29.6%**	**29.6%**	**29.6%**
Expenditure	**62,228**	**67,523**	**65,108**	**66,550**	**66,550**
% of GDP	**38.9%**	**39.3%**	**36.5%**	**33.6%**	**37.7%**
Budget Balance	**-11,363**	**-8,864**	**-9,226**	**-8,144**	**-7,953**
% of GDP	**-7.1%**	**-5.2%**	**-5.2%**	**-4.1%**	**-4.5%**
Debt	**69,896**	**74,468**	**87,533**	**96,934**	**96,934**
% of GDP	**43.7%**	**43.4%**	**49.1%**	**49.0%**	**54.9%**
Interest payments	**4,310**	**5,430**	**6,308**	**6,951**	**6,951**
% of Revenue	**8.5%**	**9.3%**	**11.3%**	**11.9%**	**11.9%**
Guarantees	**6,351**	**11,036**	**10,889**	**11,107**	**11,107**
% of GDP	**4.0%**	**6.4%**	**6.1%**	**5.6%**	**6.3%**

Source: Ministry of Finance.

4.2.2 Expenditure Estimates, Budget deficit, Government debt, Government guarantees and interest payments

Total expenditure estimates for FY2019/20 stood at N$66.6 billion, which is 0.3 percent higher than expenditure in the Mid-Year Budget review, and 4.9 percent higher compared to the FY2018/19.

The main components of expenditure in the FY2019/20 are current expenditure comprised of personnel expenditure at 45.0 percent of total expenditure and goods and services at 34.0 percent. The current expenditure excluding statutory constitutes about 79.0 percent of total expenditure, while development expenditure made up about 8.0 percent of total expenditure.

Given the budget deficit of N$8.0 billion for 2019/20, the debt stock went up by 10.7 percent from N$ 87.5 billion in FY2018/19 to N$96.7 billion or 54.8 percent of GDP, by end of FY2019/20. In the FY2020/21, total debt as a percentage of GDP is estimated to reach 68.8 percentage of GDP and it is projected to hit 83.1 percent at the end of the budget period. The acceleration of the debt stock is explained by growing needs to finance the increasing budget deficit driven mainly by the commitments to contain the spread of COVID-19 impact increasing operation expenditure as a results.

The budget deficit for FY2019/20 is recorded at 4.5 percent of GDP, which is 0.6 percent point lower than 5.1 percent recorded in the previous year. The deficit for 2019/20 was high than expected in the Mid-year budget review, due to a downward revision of GDP by the NSA during December 2019 and lower than expected National Account preliminary data for 2019/20 Nominal GDP. Going forward, the budget deficit is projected to increase to 11.7 percent in 2020/21, mainly due to lower economic activity and the negative effect of COVID-19 outbreak.

Government Guarantees increased slightly from 6.1 percentage of GDP in the previous financial year to 6.3 percent in FY2019/20. The lower guarantees as a percentage of GDP, is attributed to two guarantees that expired and paid up by the borrower.

Interest payments as a proportion of revenue increased from 11.3 percent in FY2018/19 to 11.9 percent in the FY2019/20. The current level of interest payments is 0.8 percentage points above the statutory benchmark of 3.9 percent of GDP and 1.9 percent -above the 10.0 percent of revenue target set out in the Debt Management Strategy 2018-2025.The latter, is projected to exceed 15.1by 2020/21. The increase in interest payment is due to significant increase in borrowing to fund the budget deficit and larger capital projects that are funded through AfDB.

5. THE FISCAL STRATEGY FOR THE FINANCIAL YEAR 2020/2021

5.1.1 MACROECONOMIC CONTEXT

The emergence of COVID-19 has significant impacts on macro-economic and fiscal projections. Government is faced with projected decreasing revenues and constrained access to financial markets while the need government spending to curb the spread of the virus increased.

The baseline growth scenario projects a further contraction of 6.6 percent for 2020 and average of about -0.3 percent over the MTEF. With the COVID-19, the downside risks have been elevated and these will dampen effects on fiscal indicators, and completely change ***the path of the fiscal policy stance.***

The prevalence of the COVID-19 changed the direction of fiscal policy away from fiscal consolidation to mitigation of the spread and impacts of the virus on the country. Additional expenditure has been considered to provide for the fight against COVID-19, increasing the already high government spending, while revenue is expected to fall to the lowest level.

The 2020/2021 budget although retains the continuation of measures and partnerships suggested in the Mid-Year-Budget review that of supporting the fragile economy and mainstream economic activity towards long term recovery, the key focus of the policy is to counteract the impact of COVID-19.

There is still uncertainty on the duration and the extent of the effects of COVID-19 on the Namibian economy and society. The current fiscal projections present an unsustainable outlook that requires an in-depth analysis of the current policy with the view to reversing this trend.

In view of the above facts, government finds it fit to consider a special single financial year budget for 2020/2021 table it for consideration by the National Assembly as opposed to the usual MTEF budget documents. The Single financial year Budget offers an opportunity for proper assessment of the duration of the pandemic, its impacts and the magnitude of required resources to avoid commitments that might be unaffordable for the remaining two (2) year of the MTEF.

The post COVID-19 era and the rest of MTEF would require vigorous situational analysis to guide policy interventions, which would include a blend of PPPs and private sector investments to promote growth, generate job opportunities, and promote domestic demand to enhanced revenue generation over the medium-term and provide support to the economy. In this regard, the estimates for the remaining two years of the MTEF (2021/2022-2022/2023) will be prepared and tabled during the 2020/2021 Mid-Year Budget Review.

5.1.2 Revenue Outlook

During the pandemic period, the role of the fiscal policy has been elevated to an unprecedented level to provide for resources to contain the spread of the virus, to save lives and prevent excessive economic disruption as well as to ensure a smooth return to business after the State of Emergence.

Total revenue and grants are estimated at N$51.4 billion in 2020/2021, reflecting a decline of about N$7.2 billion or 12.3 percent compared to the total collection in 2019/2020. While the extent of overall effects of COVID-19 on revenue remains uncertain, it is expected to remain almost flat in the next two years.

The resultant tailwind situation experienced in the domestic economy, declined economic activity in South Africa and the prolonged recovery in the world economy as a result of COVID-19, would have significant effects the revenue outlook.

5.2.3 Assumptions underlying revenue forecast

Revenue forecasts are endogenously estimated on the basis of the underlying revenue base. In the baseline scenario, the outlook for various tax streams follows the related aggregate macroeconomic growth projections and takes into account the impact of discretionary policy and administrative intervention measures in the reform scenario.
The revenue outlook for the FY2020/21 – 2022/23 MTEF is based on the following assumptions: -

- tax revenue growth follows the relevant economic base and the effective tax rate. Tax rates are assumed to remain constant in the baseline scenario, and take into account tax administration measures whose implementation is decided in the budget.

- estimates for FY2019/20 are based on year-to-date monthly outturn receipts data, provided by the Receiver of Revenue and Customs and Excise,

- SACU revenue for the budget year (FY2020/21) is *a priori* decided by the SACU Council in accordance with the SACU Agreement. The outlook for SACU receipts is largely based on the projections for the SACU Common Revenue Pool presented by the National Treasury, South Africa over the MTEF, and

- Non-tax revenue estimates are based on projections made by O/M/As and in line with adjustments to historical trends and outlook of underlying revenue bases.

Box I: Explanatory Note on behavioural relationships underpinning tax revenue projections

- *Income Tax on Individuals follows the base year outturn and the projected growth in public and private sector wages;*

- *Mining Company Tax follows the base year outturn and the projected growth in commodity exports.*
- *Non-Mining Company Tax follows the base year outturn and the projected growth in disposable profit income, taking into account the reduced tax rate for manufacturers benefiting from tax incentives;*

- *Value-Added Tax follows the base year outturn and the projected growth in private consumption;*
- *Revenues from Taxes on International Trade are based on extrapolations from the size of the SACU Common Revenue Pool projected in the South African Budget for the corresponding period;*
- *Other Tax revenues follow the base year outturn and the projected growth in disposable income.*

5.2.4 The Aggregate Expenditure and Debt Outlook

The pandemic raised the need for fiscal policy action to a record high level, halting the fiscal consolidation policy. The fight against the spread of COVID-19 necessitated the need for government to avail additional resources, and therefore expenditure is estimated to increase by about N$4.9 billion or 9.4 percent to about N$72.8 billion in 2020/2021, to provide for social protection and economic stimulus package.

The budget priorities will be accorded to expenditure needed to reduce the impact of COVID--19 pandemic, which will result in an increase in the budget deficit from 4.5 percent of GDP in FY2019/20 to an estimate of 12.1 percent of GDP in FY2020/21.

The total debt stock is estimated to increase from N$96.7 billion at the end of FY2019/20 to about N$119.1 billion by FY2022/23. As a proportion of GDP, Central Government debt stock is estimated to increase from 54.8 percent in FY2019/20 to 69.2 percent in 2020/2021.

5.2.5 Budget Deficit Financing

Though the borrowing strategy is to largely fund the funding needs from the domestic market, the 2020/21 financial year's budget deficit is significantly large to be sourced from the domestic market as per the norm. The borrowing requirement for the FY2020/21 is estimated at N$21.9 billion. The funding strategy will employ a combination of both the domestic market, foreign market, Development Financial Institution (DFI) as well as cash balances**.** The funding approach will be detailed in the Medium Term Funding Strategy 2020-2023.

On the other hand, funding for large scale **infrastructure** projects will continue to benefit from commitments signed with the African Development Bank that include the following projects:

- *Water Security related projects*
- *Education and Training Quality Improvement Project, (ETQIP),*

- *Namibia Agriculture Mechanization and Seed Improvement Project (NAMSIP),*
- *Rail Infrastructure Improvement Project, that include the supply of rails and turnouts for Walvis Bay–Kranzberg Railway upgrading, the Railway upgrading Works for Walvis Bay–Kranzberg, and*
- *The upgrading of section 2A (23.8 km) of the Windhoek–Hosea Kutako International Airport highway.*

5.3 Fiscal Policy Stance for the MTEF

The shock on GDP as a result of the significant reduction in economic activity in virtually all sectors of the economy has significant adverse effects on public finance. Thus, unlike during other economic downturns where the fall in output – was driven by demand and government has choices to determine the level and extent of policy interventions; with the COVID-19 pandemic it is an unavoidable consequence of measures to limit the spread of the disease. Therefore, the policy stance during the pandemic period is to address the following priorities:

- ***Save people's lives,*** *through spending allocation to the health sector for testing and treatment, put in place health measures including enforcement of social distancing at work place and provide access to water and sanitation to prevent the infection as well as provision of food to the vulnerable people.*
- ***Provide enough resources for people hit by the crisis****; by providing grants to employees whose income is affected as a results of lockdown, the unemployed between the age of 18 and 60, and subsidies to businesses to make sure they remain afloat and do not retrench employee during the difficult time.*
- ***Guarantee the functioning of essential sectors****; by ensuring essential service are provided with little interruption and borders are open to allow the entry of essential goods and services, and are delivered in accordance with the health regulations.*
- ***Prevent excessive economic disruption;*** *through providing support to the most affected sectors through targeted loans and subsidies, to ensure business continuity and safeguard jobs.*
- ***Provide continuous support to the elderly, vulnerable children, marginalized and people living with disabilities as well as the qualified veterans*** through social safety nets to reduce poverty and vulnerability.

- ***Provide continuous financial support to the development of railway****,* ***roads and water infrastructure, as well as housing and sanitation.***

- ***Safeguarding macroeconomic stability*** amidst COVID-19 threats to the economy

- ***Protecting expenditure in the social sectors*** of education, health (including PSEMAS) and skills development.

3.5.2 Administrative Reforms

- *The Government will undertake reforms on the management of PSEMAS for enhanced governance and fiscal sustainability*
- *Undertake Social grants data verification for effective and efficient administration*
- *Process re-engineering for Government Garage and Government Stores.*
- *Introduce measures to accelerate payment of tax refunds and other payments to service providers*
- *Government will commission a study to review the public service personnel expenditure*
- *Undertake expenditure audits on key spending items to curb possible wastages within the system*

ANNEXURE 1:

Table 6: Revenue outturn and projected outlook 2017/18-2020/21 MTEF (N$ Mil)

Revenue Head	2017/18	2018/19	2019/20	2020/21
	Actual	**Actual**	**Rev. Bdgt Estimates**	**Projection**
GDP at market prices, nominal	**171,660**	**178,208**	**176,426**	**171,133**
Revenue and grants as % of GDP	34.2%	31.4%	33.2%	30.0%
TOTAL REVENUE AND GRANTS	**58,659**	**55,882**	**58,596**	**51,397**
TAX REVENUE	**54,591**	**52,189**	**54,180**	**48,897**
Tax on income and Profits	**21,947**	**21,855**	**22,000**	**15,376**
Income Tax on Individuals	13,267	13,588	13,623	9,585
Company Taxes	**7,860**	**7,325**	**7,192**	**4,803**
Diamond Mining Companies	1,654	1,496	1,271	712
Other Mining Companies	256	445	486	133
Non-Mining Companies	5,950	5,384	5,435	3,958
Other Taxes on Income and Profits	**309**	**336**	**412**	**293**
Non-Resident Shareholders Tax	183	265	239	190
Tax on Royalty	96	70	143	77
Annual Levy on Gambling Income	30		30	26
Withholding Tax on Interest	**511**	**607**	**773**	**694**
Withholding tax on companies & individuals	331	336	520	467
Withholding tax on unit trusts	83	148	140	125
Withholding tax on Services	96	123	113	103
Taxes on Property	**270**	**221**	**216**	**197**
Domestic Taxes on Goods and Services	**12,604**	**12,542**	**12,844**	**10,968**
VAT + Additional Sales Tax + General Sales Tax	12,049	11,461	11,606	10,018
Levy on Fuel	342	730	715	488
Fishing Quota Levies	145	267	259	127
Gambling Licence (Business)	4		4	2
Environmental levies & Carbon Emission		83	260	333
Other taxes on goods and services	63			-
Taxes on International Trade and Transactions	**19,597**	**17,375**	**18,917**	**22,252**
SACU Revenue Pool Share	19,778	17,773	21,426	20,670
Revenue Formula Adjustments	-180	-398	-2,509	1,582
Other Taxes	**171**	**197**	**202**	**104**
NON - TAX REVENUE	**4,005**	**3,559**	**4,250**	**2,500**
Entrepreneurial and Property	**2,818**	**2,241**	**2,863**	**1,466**
Interest Receipts for Loans Extended to SOEs	11	10	-	-
Interest on Investments	1	2	-	-
Dividends and Profit Share from SOEs & other companies	1,236	617	1,293	522
Interest on State Account Balances with BoN	24	11	35	33
Diamond Royalties	1,203	1,255	1,230	738
Other Mineral Royalties	343	347	306	173
Fines and Forfeitures	**95**	**90**	**70**	**62**
Administrative Fees, Charges and Incidental Sales	**1,092**	**1,228**	**1,317**	**971**
Lending and Equity Participation	**63**	**62**		**-**
External Grants	1	72	167	-

Table 7: Policy Scenario: Fiscal Stance, Aggregate expenditure, and Public debt consistent with policy stance for FY2017/18-2020/21 (N$ Mil)

Component	2017/18	2018/19	2019/20	2020/21
	Actual	**Actual**	**Estimates**	**Projection**
GDP	**171,660**	**178,208**	**176,426**	**171,133**
Total Revenue and Grants	**58,659**	**55,882**	**58,596**	**51,397**
As % of GDP	34.2%	31.4%	31.5%	30.0%
Expenditure (Budget/MTEF)	**62,541**	**65,108**	**66,230**	**67,128**
Expenditure Adjustments	5,165	0	320	5,644
Potential Expenditure	67,523	**65108**	**66,550**	**72,772**
% of GDP	39.3%	36.5%	37.7%	42.5%
Own financing (cash reserves)				
Potential Budget Balance	**-8,864**	**-9,226**	**-7,953**	**-21,375**
% of GDP	-5.2%	-5.2%	-4.5%	-12.5%
Domestic Debt Stock	48,609	55,307	63,260	84,635
NEW PROJECTS LOANS				
ADB Loan Mechanisation program for Agric			14	170
ADB Loan Transport (Rail ZAR1,350)			120	350
ADB Loan Transport (Road)			83	150
ADB Loan Basic Education (School Renov)			40	320
Foreign Debt Stock (est.)	25,859	32,227	33,483	34,473
Total Debt	**74,468**	**87,533**	**96,743**	**119,108**
% of GDP	43.4%	49.1%	54.8%	69.6%
Domestic Debt	28.3%	31.0%	35.9%	49.5%
Foreign Debt	15.1%	18.1%	19.0%	20.1%
Total Debt	43.4%	49.1%	54.8%	69.6%
Growth in Debt	6.5%		11.1%	23.1%
Domestic Interest Payments	3,638	4,041	4,376	4,801
Foreign Interest Payments	1,785	2,268	2,575	2,937
Interest payments	**5,430**	**6,308**	**6,951**	**7,737**
% of Revenue	9.3%	11.3%	11.9%	15.1%
Other statutory payments		**-**	**-**	**706**
Total Statutory Commitments		**6,308**	**6,951**	**8,443**
Domestic Guarantee	1,970	1,737	1,772	1,607
Foreign Gurantee	9,066	9,152	9,335	9,522
Total Guarantees	**11,036**	**10,889**	**11,107**	**11,129**
% of GDP	6.4%	6.1%	6.3%	6.5%

ANNEXURE 2

Table 8: Supply-side GDP growth projections - annual % changes

Industries	**2017a**	**2018a**	**2019e**	**2020p**	**2021p**	**2022p**	**2023p**
Agriculture, forestry and fishing	7.0	-1.9	-2.6	-2,2	8,5	4,7	-2,7
Livestock farming	9.8	-0.5	-6.7	-12,4	16,8	4,6	-2,9
Crop farming and forestry	15.7	-6.9	-13.5	8,5	4,3	4,9	-2,5
Fishing and fish processing on board	0.8	0.1	6.1	-9,9	5,9	1,7	1,5
Mining and quarrying	14.2	16.1	-11.1	-16,5	-9,6	9,4	4,0
Diamond mining	14.5	15.1	-17.7	-19	-11,6	12,3	6,4
Uranium	23.5	33.4	-4.4	-20	-9,1	6,4	3,9
Metal Ores	-26.3	0.8	-0.1	-9,2	-7,0	4,9	-0,6
Other mining and quarrying	63.7	13.6	2.5	-7,6	-3,3	3,5	-3
Primary industries	**9.7**	**6.9**	**-5.5**	**-12,1**	**-1,9**	**7,6**	**1,7**
Manufacturing	-1.0	1.0	3.5	-2,5	-2,3	2,7	2,9
Meat processing	12.5	14.7	18.1	-11	3,4	2,2	2,4
Grain Mill products	8.1	1.9	-2.6	7	2,1	5,7	4,3
Other food products	-5.2	1.1	1.0	2,5	0,1	3,6	2,9
Beverages	-4.2	5.0	12.5	-26,6	-9,8	4,6	2,2
Textile and wearing apparel	11.3	0.9	-2.3	-2,3	2,4	2,6	1,9
Leather and related products	-1.6	4.5	-2.1	-3,9	1,2	4,9	5,1
Wood and wood products	8.6	-12.5	1.3	-4,7	-2,1	5,6	4,2
Publishing and Printing	12.1	-13.2	-6.9	1,1	1,7	2,7	-1,6
Chemical and related products	-18.9	-7.2	-1.6	6,1	3,9	-0,4	-2,7
Rubber and Plastics products	-12.1	7.0	-2.3	4,1	2,4	1,9	1,6
Non-metallic minerals products	-17.7	-5.1	3.8	-4,7	6,2	3,7	4,3
Basic non-ferrous metals	4.1	-4.0	12.3	-9,9	-4,6	1,8	1,5
Fabricated Metals	-24.6	5.5	1.1	-0,2	1,1	4,5	-1,8
Diamond processing	11.4	6.4	-7.0	-24,0	-9,2	8,2	3,4
Other manufacturing	2.6	0.1	9.2	-1,6	1,0	2,1	1,4
Electricity and water	-16.4	13.2	-5.4	5,4	4,6	3,6	3,8
Construction	-23.1	-8.7	-7.9	-12,7	-5,8	2,0	2,7
Secondary industries	**-6.9**	**0.9**	**0.9**	**-2,6**	**-1,9**	**2,7**	**3,0**
Wholesale and retail trade, repairs	-6.9	-6.2	-4.7	-2,3	2,8	4,8	3,5
Hotels and restaurants	-1.4	4.9	2.7	-87,8	-24,7	1,6	2
Transport	-4.8	-3.5	-3.4	-34,7	-11,8	7,5	7,3
Transport	-4.0	-5.0	-5.4	-27,5	-16,1	4,4	3,7
Storage	-8.0	2.6	4.4	-7,2	4,3	3,1	3,6
Information Communication	6.0	-2.2	8.6	13,1	4,7	3,5	5,3
Financial and insurance service…	3.6	0.0	6.0	-9,8	-5,8	1,3	1,8
Real estate activities	2.6	2.7	2.7	-4,4	-1,5	1,7	3
Professional, scientific and techical …	-2.8	-1.1	-7.2	-1,5	0,8	1,4	4,2
Administrative and support services	-2.2	0.9	-6.2	-0,6	2	2,6	-1,3
Arts, Entertainment & Other Service …	-0.4	0.4	-1.9	-17,1	-3,8	1,9	2,8
Public administration and defence	2.2	0.7	2.2	1,1	0,3	2,1	2
Education	-1.7	0.5	2.7	0,6	0,2	2,8	3,2
Health	4.4	-8.9	-4.8	5,6	4,1	2,9	3,6
Private household with employed …	1.0	-2.5	-2.5	1,7	0,7	2,4	-3,4
Tertiary industries	**-0.5**	**-1.4**	**0.6**	**-5,7**	**-1,4**	**2,7**	**2,7**
All industries	0.1	0.7	**-0.9**	-6,3	-1,4	3,7	2,6
Taxes less subsidies on products	**-3.9**	**0.5**	-4.0	-9,6	1,9	2,5	3,5
GDP at market prices	-0.3	0.7	**-1.1**	-6,6	-1,1	3,6	2,6

ASSUMPTIONS

1. P**rimary industries** are expected to contract further in **2020,** due to an expected lower output from all the *mining sectors* and *agriculture*, *forestry and fishing* as the impact of COVID-19 takes its toll on global demand for commodities in all the sub-sectors. Growth for 2021 is expected to recover but remain contractionary due to lower overall output. Over the medium term period, the primary industries are expected fully recover from 2022 and moderate with an average growth rate over the remainder of the medium term.

2. **Secondary industries,** the **secondary industries** are expected to fall into contraction in **2020**, on the back of expected poor performance in *manufacturing* and construction as the impact of the travel ban and lockdown due to COVID 19 surges. While electricity and water sector is expected to expand on the assumption of increased production due to higher demand (lockdown) and increased capacity- promoted by the production from hydro-power and solar power plants coming on stream. For **2021** and beyond, growth is expected to average around 2.5 percent, boosted by a recovery in *construction and manufacturing.*

3. T**ertiary industries** are estimated to contract further in **2020,** attributable to the impact of COVID-19 on hotels and restaurants (tourism), wholesale and retails, transport, - as these sectors are affected by the travel ban, partial and total lockdown from most Namibian tourist origin, while the financial sector is expected to be affected through the loss of revenue and increase in non-performing loans, as well as the impact of the reduced repo rate. Growth for **2021** is expected to rebound but still remain contractionary and record gradual moderate average growth over the medium term. Growth for **2021** is expected to be boosted by improvements albeit contractions in *wholesale and retail trade repairs, hotels and restaurants* and *transport*.

PRIMARY INDUSTRIES

For **2020** the ***agriculture, forestry, and fishing*** sector is estimated to contract further. If a normal rainfall season prevails, the production of grains increases, then *crop farming* is expected to expand in **2020**, while *livestock farming* is projected to contract albeit at slower rate as the sub-sector invests in restocking activities (at a slower pace due to reduced frequency of auctions as a measure in containing the spread of COVID 19). The sector is threatened by armyworms, fruit flies, and mouth and foot disease as well as the negative implications of COVID 19. Growth for **2021** is expected to recover and expand as restocking continues with increase in demand as the lockdown impact dissipates in *livestock farming* and *crop farming* as the sector goes into a recovery and rebalancing.

The ***fishing and fish processing on board sector*** is estimated to contract as the impact of COVID 19 lockdown and travel restrictions takes its toll on the sector with reduced domestic and external demand in **2020**. Growth in **2021** is expected to record a recovery as the sector is anticipated to rebalance and recover from the negative developments that affected its growth in **2019** and the impact of 2020 COVID-19 outbreak subsides. There are on-going discussions and interventions to bring about reforms over the 2020-2023 periods in order to stabilize the sector and make it more transparent.

Diamond mining growth is estimated to contract further in 2020 and **2021** based on the impact of COVID-19 outbreak and its effect on production, commodity prices and subsequently demand for diamonds especially given that Namibian diamonds are luxury goods. Growth is expected to rebound and expand as result of low base effect and production is expected to come back on full stream in **2022**. The investment to acquire another mining vessel in 2018 is expected to produce positive yields in **2023** with marginally better growth as the vessel is expected to be completed and commissioned during that year.

For **2020** the ***uranium*** sub-sector**,** is estimated to contract as the sector struggles with water constraints and reduced output due to depressed global demand for commodities coupled with reduced level of long term contracts. Output growth for the sector in **2021** and beyond is expected to contract, albeit slower pace before recovering and expand in 2022 on the basis of expected increase in prices and record average growth over the medium term.

Metal ores recorded a marginal decline in **2019** and contract in **2020**. The marginal decline in **2019** is attributed to the lower production of zinc and gold. The remaining large *copper* mine has gone under care maintenance from February 2020. *Gold* production is estimated to be stable for **2020** and, as such, the sub-sector is expected to contract and in 2021 as most mining activity in the sub-sector is expected to wind-up over the medium term.

SECONDARY INDUSTRIES

For **2020,** the **secondary industries** are expected to fall into contraction, on the back of expected poor performance in *manufacturing* and construction as the impact of the travel ban and lockdown due to COVID-19 surges. While electricity and water sector is expected to expand on the assumption of increased production due to higher demand (lockdown) and capacity- promoted by the production from hydro-power and solar power plants coming on stream. For **2021** and beyond, growth is expected to record average growth, boosted by *construction and manufacturing.*

For **2020** the ***Manufacturin***g, sector is estimated to drop into negative territory and contract as the impact of COVID-19 affects *meat processing, beverages*, *basic non-ferrous metals* and *diamond processing*. ***Diamond processing*** is estimated to recover in **2019** but contract due to depressed demand for diamonds (negatively affected by the lockdown in attempt to slowdown the spread of COVID-19) in **2020** and **2021.** Thereafter the sector is expected to rebound moderately and record an average growth over the medium period, on the back of stabilization of market absorption for most of the products produced in Namibia.

The ***construction*** sub-sector growth is estimated to remain contractionary, due to the impact of the lockdown and lower investment confidence. Growth for **2021** is expected to remain in contractionary territory but improve prompted by the delayed implementation of the African Development Bank (AfDB)-funded projects[7]. For **2022** and beyond, the sector is estimated to recover and register a moderate average growth rate on the back of increased investment in public and private sector projects.

Growth in the ***electricity and water*** is estimated to expand in **2020**. The *electricity* sub-sector is expected to grow on the assumption of increased output as most independent power producers come on-board with renewable energy production. The growth in **2020** is attributable to the increased electricity generation despite reduced demand for water due to the anticipated normal rainfall season for **2020**. From **2021** and beyond, growth in the *electricity and water* is expected to moderate at an average rate on the back of the *electricity sub-sector* which is expected to grow moderately as the investments in the renewable energy space yield positive results for domestic electricity generation.

TERTIARY INDUSTRIES

The **tertiary industries** are estimated to collapse to a contraction in **2020.** Growth for **2021** is expected to rebound but still remain contractionary and record gradual moderate growth over the medium term**.** While the contraction in **2020** is attributable to the impact of COVID-19 on hotels and restaurants (tourism), wholesale and retails, transport, - as these sectors are affected by the travel ban partial and total lockdown from most Namibian tourist origin, while the financial sector is expected to be affected through the loss of revenue and increase in non-performing loans, as well as the impact of the reduced repo rate. Growth for 2021 is expected to be boosted by improvements in *wholesale and retail trade repairs, hotels and restaurants* and *transport*.

The ***wholesale and retail trade, repairs*** sector is estimated to post a contraction in **2020**, with a recovery expected in **2021** and expand over the remainder of the medium term. The impact of COVID-19 has mixed effect on the sector, with an initial boost followed by dwindle effect as the impact of the lockdown extends. From **2021** and beyond, the sector is projected to recover and grow moderately on the back of the expected improvement economic growth, supported by the reduction in the repo rate (lagged effect) and improved liquidity in the market. Growth in the ***hotels and restaurant*** sector is estimated to contract in 2020 and 2021 respectively. The contraction in **2020** is driven by the collapse of the sector as the impact of **COVID-19** leaves the sector dissipated amidst the partial or total lockdown and travel ban across the global and the domestic front. The sector continues to undergo a structural shift and is reeling under the impact of fiscal consolidation stance of the government and the impact of COVID-19 is expected to linger for a while longer than the actual travel ban, once lifted and some business are expected to close indefinitely. However, the sector is expected to recover in

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[7] *Windhoek-Hosea Kutako International Airport road, railway construction and education (classroom renovations)*

2022 and**,** going forward, register an average growth rate over the medium term period as it is anticipated to bottom out and reach its medium term growth trajectory.

The growth in **2020** of the ***transport and storage*** sector is estimated to have contracted as the aviation industry drops due to the travel restrictions imposed to reduce and slowdown the spread of COVID-19, thus the transport subsector is expected to contract while the storage subsector is expected contract as demand for storage decreases due to travel restrictions. In 2021, growth in the sector is expected to remain contractionary as the impact of COVID-19 is expected to linger over the remainder of **2021**. Growth over the remainder of the medium period is anticipated to record an average rate, as developments in the transport sector (railway rehabilitation, road construction projects) based on improved transport corridor activities and cross-border trade.

The ***information and communication*** sector is estimated to post robust growth in **2020,** as the impact on the travel restrictions and lockdown is expected to increase demand for ICT services at household levels. The sector is projected to record an average growth rate over the medium term period on the back of the expected increased regional competition that is anticipated to create a surge in innovation.

Growth in the ***financial and insurance service activities*** sector is anticipated plummet substantially in **2020** due to reduced profit margins in the sectors with the reduced repo rate (by more than 225 basis points so far in 2020) and declining performance in the other sectors. These are expected to increase non-performing loans, reduce profit margins and have a negative impact on the overall performance of the sector as risk of defaults increases. Growth is expected to recover in **2022** and from **2023** and beyond, moderate to an average mainly on the back of the softening monetary policy, expected improvement in consumer confidence as well as general economic conditions.

Real estate activities are estimated to contract in **2020**. The contraction in **2020** is anticipated based on the assumed decline in construction activities and depressed financial sector due to the COVID-19 outbreak and subsequent measures to reduce the spread of the outbreak. From **2021** and going forward, the sector is expected to slowly recover and post a marginal average growth rate.

Growth for ***public administration and defense*** is estimated to grow moderately in **2020** and, thereafter, by an average over the medium term period. ***Health*** is estimated to expand over the same period. The slow growth in **2020** in *public administration and defense* is due to the impact of the shift in strategies and combating the spread of the pandemic by the government. The growth for all three sectors in **2021** is attributed to the relaxed restriction on new recruits for Safety and Security, Education and Health Ministries. Over the medium term, these sectors are expected to grow moderately.